Thomas Piketty makes a worrying point about India

Has India, famously tolerant of blatant inequality of wealth and income, reached the point at which its politics will have to respond to an ever widening-gap between rich and poor? Perhaps—especially if you believe Thomas Piketty.

When Piketty wrote *Capital in the 21st Century* a few years ago, he was forced to leave India out of his analysis. He needed data on income-tax payments to construct his argument, and the Indian authorities simply refused to give it to him. Piketty, together with fellow-economist Lucas Chancel, have partly managed to escape that problem in a recent paper, however—and their results are depressing: “The top 1 percent of earners captured less than 21 percent of total income in the late 1930s, before dropping to 6 percent in the early 1980s and rising to 22 percent today.”

In other words, India is more unequal today, according to Chancel and Piketty, than at any time since the British Raj, and most of this increase in inequality took place at the same time as the market-friendly reforms that opened up India to the world and greatly increased per capita income.

Clearly, this isn’t good news. Still, let’s examine one or two caveats. For one thing, Chancel and Piketty themselves point out that the data that they have to work with is far from ideal. In fact, tax data in India is notoriously incomplete—and always has been. In fact, it may have been far more incomplete in India’s years of socialism, during which period the two economists claim inequality was far less pernicious.

Nor is inequality a statistic that is valuable in isolation. As the economist Swaminathan Aiyar pointed out in the *Financial Times* recently, according to Piketty and Chancel the two Indian states with the least inequality of consumption in 2010-11 were Bihar and Assam, “sloughs of despond and stagnation,” while one of the places featuring the highest inequality was Kerala, a state that has long been praised for its high level of human development and which is unquestionably the best place to be born in India.

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This divergence is reflective of a real policy trade-off. Should governments work to reduce the number of people in absolute poverty, regardless of the effect on inequality? Or should they ensure that the distribution of income remains relatively even, although that might condemn millions of people to poverty for longer than is necessary? The same period that has seen this supposed increase in inequality in India also saw the ranks of India’s poor shrink dramatically.

That, in some ways, was the bargain underlying the 25 years since India’s liberalization in the early 1990s. Under the various national governments since then, especially the three centre-left coalitions led by the Congress Party that featured Manmohan Singh as finance minister and prime minister, there was a consensus about the goals of economic policy: to pursue growth-enhancing, market-friendly reform, at the risk of widening inequality, while attempting to redistribute the benefits of that growth directly to the very poorest.

Reform was too slow. But at all times there was an agreement about its purposes and consequences—even if this was only among the political class, and not shared with the electorate. If indeed this policy consensus resulted in relatively high growth, a large reduction in poverty and an increase in income inequality, then that was, it could be argued, by design.

What leads me to worry that Piketty and Chancel may be right in large degree about the growth in inequality in India is that, over the past few years, that consensus may have broken down. Large

numbers of those “left out” by growth and Congress-style redistribution—those neither rich nor poor, in the middle of the income distribution and the caste hierarchy -- are no longer satisfied by the reform consensus. Middle-class farmers and caste groups who feel others have done better than they have in the post-reform period have taken to the streets to protest being “left behind” by the economy, and by government benefits targeted at the poorest.

Those who read Prime Minister Narendra Modi’s election victory in 2014 as a vote for more reform of the sort that India had seen since 1991 were grievously mistaken. When Modi announced the withdrawal of 86% of India’s currency last year, there was little or no economic justification for it—if, that is, you persisted in thinking that India was still set on the post-1991, reformist path. In fact, Modi himself presented it as a deliberate strike in a class war. I myself heard one outspoken ordinary defender of “demonetisation” declare that it was the first blow against inequality struck since 1991.

Across the political spectrum—and especially in Modi’s own Bharatiya Janata Party—politicians will have learned the upside of taking on those who have benefited most from the last quarter-century of growth. Anyone who expected a straight line of steadily increasing reforms from 1991 onwards to a dimly-glimpsed free-market future is doomed to disappointment. **Bloomberg View**

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